



House Committee on Finance

Re: Budget Article 14 (H7120 - FY06 Supplemental Budget)

March 23, 2006

Testimony of Kate Brewster, Executive Director  
Submitted on Behalf of the Poverty Institute

The Poverty Institute strongly opposes Article 14 of the Governor's proposed budget, which would delay promised increases to child care providers. This amounts to much more than a mere postponed pay raise. These delays will greatly impact the child care provider industry and workers – who are largely underpaid already – forcing many of them to refuse to take children whose families rely on child care subsidies.

In 1997, the General Assembly wisely chose to gradually raise reimbursement rates to a level high enough to allow providers to accept subsidies which would in turn expand the number of slots available to low-income families. By 2000, the state was required to pay providers the 75<sup>th</sup> percentile of the current market rates, which is the rate charged by 75% of respondents to the statewide, biennial survey. This proved effective. Since 1997, the number of child care centers has grown by 45%, family child care providers have almost doubled and the number of providers accepting subsidies has increased significantly.

However, recent budget cuts have significantly reduced the rates providers are receiving. The last market rate survey, published in 2004 but based on market rates from 2002, should have been the basis of the reimbursement rate for January 2006. Implementation of the increased rate was delayed until July of 2006 as part of last year's budget process. If these rates are delayed AGAIN until July 2007, providers will then be receiving rates based on market information that is five years old. When inflation is considered, the actual payment will be even lower.

To make matters worse - this rate isn't even sufficient to pay for the real cost of child care. The rate does not cover the cost of doing business -- which includes the cost of wear and tear on household furnishings, the increased cost of utilities, the cost of training, materials, and food and beverages for the children. For example: A family child care provider caring for four pre-schoolers would earn a gross income of \$600/week, or \$31,200/year. When the cost of doing business is taken into account, the net income for the provider would be closer to \$24,500/yr.<sup>1</sup> Further, these income calculations are based on a 40 hour work week, while family child care providers often work more than 40 hours and do not receive any compensation for vacation or sick leave.

Child care providers supply a valuable service to our state – allowing parents to go to work and children to be ready for school. Providers deserve to be paid the wage they were guaranteed under the Starting Right Program. If rate increases are delayed yet again, it is only a matter of time before providers will be forced to refuse to accept children using child care

subsidies. This would be a huge step backwards for the state, families, and our youngest residents.

National studies have long found a direct correlation between higher wages and benefits for providers and a more stable, qualified workforce and higher quality child care.<sup>ii</sup> When wages are low, an already high industry turnover rate of approximately 30% a year rises and the industry becomes filled with less-educated candidates, leading to overall lower quality child care settings.<sup>iii</sup>

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<sup>i</sup> These calculation are based on cost of doing business deductions allowed by the Rhode Island Department of Human Services.

<sup>ii</sup> See Helburn, S., M. Culkin, J. Morris, N. Mocan, C. Howes, L. Phillipsen, D. Bryant, R. Clifford, D. Cryer, E. Peisner-Feinberg, M. Burchinal, S. Kagan, & J. Rustici. (1995) *Cost, Quality and Child Outcomes in Child Care Centers: Public Report*. Denver: Economics Department, University of Colorado at Denver. See also Whitebrook, M., C. Howes, & D. Phillips. (2001) *Then & Now: Changes in Child Care Staffing, 1994-2000*. Washington, DC: Center for the Child Care Workforce.

<sup>iii</sup> See Whitebrook. *Then & Now*.